

## Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-08 NSC-05

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 AGR-10 /099 W

-----260945Z 121567 /11

R 260745Z APR 77

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 3483

INFO AMEMBASSY TAIPEI

AMEMBASSY TOKYO

AMCONSUL HONG KONG

UNCLAS SECTION 1 OF 2 SEOUL 3394

HONG KONG FOR REGFINATT

E.O. 11652: N/A

TAGS: EFIN, ETRD

SUBJECT: KOREAN ECONOMY: FEBRUARY-MARCH PERFORMANCE

REF: SEOUL 1966

SUMMARY: RECENTLY RELEASED DATA CONFIRM PREVIOUS SUSPICIONS THAT ECONOMIC PERFORMANCE IN FEBRUARY WAS BELOW PAR: THOSE FOR MARCH, HOWEVER, SUGGEST SOME IMPROVEMENT. IN MARCH, MONEY GROWTH AND PRICE RISES SLOWED WHILE EXPORTS ROSE MORE RAPIDLY THAN IMPORTS. THIS WELCOME NEWS, HOWEVER, WAS PARTIALLY OFFSET BY A REPORT THAT THE WINTER BARLEY CROP HAS SUFFERED SUBSTANTIAL DAMAGE. END SUMMARY.

1. THE LATEST ROKG KEY ECONOMIC INDICATORS SHOW A MIXED PERFORMANCE FOR THE FIRST QUARTER OF 1977. WHILE OVERSHADOWED BY A STRONG PERFORMANCE IN THE EXTERNAL SECTOR, SOME WEAKNESSES SHOWED UP IN SUCH VARIOUS INTERNAL INDICATORS AS INCREASES IN MONEY SUPPLY, PRICES AND INDUSTRIAL PRODUCTION. WITH DATA NOW UNCLASSIFIED

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AVAILABLE THROUGH FEBRUARY, THE INDUSTRIAL PRODUCTION VNDEX IS UP ONLY 16 PERCENT OVER THE SAME PERIOD OF 1976, INDICATING A RELATIVELY SLOW FIRST QUARTER AS A WHOLE. INVENTORIES HAVE ALSO INCREASED. THE MANUFACTURES INVENTORY TO SHIPMENT RATIO HAS RISEN FROM 69.8 IN DECEMBER TO 91.7 IN FEBRUARY. THE SLUGGISH PRODUCTION LEVEL AND WEAK CONSTRUCTION ACTIVITY CAUSED THE OVERALL WARNIG INDICATOR FOR FEBRUARY TO FALL TO 1.4 THE

FIRST TIME SINCE OCTOBER 1975 THIS COMPOSITE INDICATOR HAS BEEN BELOW 1.5, THE WATERSHED BETWEEN A DOWNWARDLY INCLINED STABLE ECONOMIC SITUATION AND AN UPWARDLY TENDING STABLE ECONOMY.

2. THE GOVERNMENT STATISTICS FOR MARCH WERE DECIDEDLY BETTER. AFTER SHARP RISES IN FEBRUARY, INCREASES IN MONEY SUPPLY AND PRICES SLOWED; THOUGH, IN THE CASE OF MONEY SUPPLY, NOT AS MUCH AS THE GOVERNMENT WANTED. ACTUALLY, MONEY (MI) DECLINED BY 23 BILLION WON IN ABSOLUTE TERMS, BUT ON A SEASONAL BASIS THIS EQUATES TO A 3.1 PERCENT RISE. FOR THE FIRST QUARTER (I.E., SINCE DECEMBER), MONEY SUPPLY WAS UP A SEASONALLY ADJUSTED 9.9 PERCENT, MUCH MORE THAN IT SHOULD BE IF THE INCREASE FOR 1977 IS TO STAY WITHIN THE GOVERNMENT TARGET OF 25 PERCENT. THE INCREASE IS DUE IN LARGE MEASURE TO INFLOWS FROM THE EXTERNAL SECTOR. THE OVERALL FISCAL BALANCE THROUGH MARCH SHOWS A RELATIVELY MODEST SURPLUS OF 17 BILLION WON COMPARED TO A 97 BILLION WON SURPLUS FOR LAST YEAR'S FIRST THREE MONTHS. DOMESTIC CREDIT ROSE 1.7 PERCENT IN MARCH AND FOR THE YEAR IS NOW UP 4.3 PERCENT SEASONALLY ADJUSTED, A CREDITABLE PERFORMANCE. FINANCIAL SAVINGS WHICH ROSE 227 BILLION WON (UNADJUSTED) NOW TOTAL 24 PERCENT OF THE 1977 TARGET.

3. THE SEASONALLY ADJUSTED WHOLESALE PRICE INDEX DECLINED 0.4 PERCENT (PUUS 0.6 PERCENT UNADJUSTED) WHILE THE CONSUMER PRICE INDEX ROSE 0.2 PERCENT (1.4 PERCENT UNADJUSTED) IN MARCH, THUS BRAKING THE ACCELERATED RISE WHICH OCCURRED IN FEBRUARY. FOOD WAS UP ON THE UNADJUSTED WHOLESALE INDEX WHILE NON-FOODS DID NOT MOVE APPRECIABLY. ON THE UNADJUSTED CONSUMER INDEX, NON-FOOD ITEMS WERE RESPONSIBLE FOR MOST OF THE UNCLASSIFIED

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INCREASE WHILE FOOD REMAINED RELATIVELY STABLE. WITH THE OPENING OF THE NEW SCHOOL YEAR MARCH 5, EDUCATIONAL EXPENSES ROSE AN AVERAGE 13 PERCENT.

4. THE EXTERNAL SECTOR CONTINUED TO PERFORM STRONGLY IN MARCH. GROSS FOREIGN EXCHANGE RESERVES ROSE BY \$331 MILLION THANKS TO A NET INFLOW OF CAPITAL OF \$163.5 MILLION AND A KFX (SETTLEMENTS BASIS) CURRENT ACCOUNT SURPLUS OF \$171 MILLION. EXPORT PERFORMANCE WAS ESPECIALLY STRONG IN MARCH. KFX EXPORT SHIPMENTS WERE \$773.6 MILLION (\$760.4 MILLION UNADJUSTED). ARRIVALS OF EXPORT L/C'S TOTALED \$800.3 MILLION (\$850.7 MILLION UNADJUSTED). TOTAL KFX EXPORTS AND EXPORT L/C ARRIVALS FOR 1977 ARE HIGHER BY 45 PERCENT AND 23 PERCENT, RESPECTIVELY, THAN IN THE SAME PERIOD OF 1976. KFX IMPORTS (FOREIGN LOAN FINANCED IMPORTS EXCLUDED) AND IMPORT LICENSES CONTINUE AT RESTRAINED LEVELS. TOTAL KFX IMPORTS WERE \$602.6 MILLION (\$658.0 UNADJUSTED) WHILE KFX LICENSE ISSUANCES WERE \$639.3 MILLION (\$728.2 UNADJUSTED). IMPORT TOTAL IN THE FIRST QUARTER OF 1977 SHOW KFX IMPORTS HAVE RISEN 17 PERCENT AND KFX IMPORT LICENSES 31

PERCENT OVER FIRST QUARTER 1976.

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UNCLAS SECTION 2 OF 2 SEOUL 3394

HONG KONG FOR REGFINATT

5. THE BAD NEWS FOR THE MONTH WAS CONTAINED IN A STATEMENT BY THE MINISTER OF AGRICULTURE AND FISHERIES BEFORE A NATIONAL ASSEMBLY GROUP. BASED UPON A SURVEY CONDUCTED BY HIS MINISTRY IN MARCH, THE WINTER BARLEY CROP HAS SUFFERED EXTENSIVE DAMAGE DUE TO THIS YEAR'S VERY COLD AND EXTREMELY DRY WINTER. THE MINISTER PUT CROP LOSSES AT 22 PERCENT. THE GOVERNMENT HAD PROJECTED A TOTAL HARVEST OF BARLEY, AND A LITTLE WHEAT, GROWN AS WINTER CROPS, AT 1.9 MILLION TONS. USING AN ESTIMATED COMBINED LOSS OF 500,000 TONS OF BARLEY AND WHEAT AND LAST YEAR'S PRICES, WE ESTIMATE THAT, OTHER THINGS BEING EQUAL, THESE LOSSES COULD SHAVE THE GNP PROJECTION BY 0.4 PERCENT. HOWEVER, THE SURVEY WAS CONDUCTED AT A TIME WHEN THE DROUGHT WAS AT ITS PEAK. SINCE THEN, THERE HAS BEEN RAIN, BUT IT IS IMPOSSIBLE YET TO PREDICT THE BENEFIT.  
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